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INDUSTRIAL DEVELOPMENT FUND AND OTHER VOLUNTARY CONTRIBUTIONS

Industrial Development Fund - estimated resource level and programme for 1993-1994

Report by the Director-General

Summary

Reviews the current pledging pattern of the Industrial Development Fund and submits proposals for the programming thrust for 1993 and 1994.

CONTENTS

	Paragraphs	Page
Introduction	1 - 3	1
Chapter		
I. ESTIMATED RESOURCE LEVEL . .	4 - 5	1
II. PROGRAMMING THRUST 1993-1994	6 - 16	2
III. ACTION REQUIRED OF THE COMMITTEE	17	3

Introduction

1. The Financial Regulations of UNIDO stipulate that the Industrial Development Fund (IDF) shall be financed by voluntary contributions to the Organization and such other income as is provided for in the Financial Regulations. Furthermore, the Director-General shall administer IDF in accordance with the general policy guidelines governing the operations of the Fund that are established by the General Conference, or by the Industrial Development Board acting on behalf of the Conference, and in accordance with the Financial Regulations (regulation 6.2).

2. The financial management of IDF is governed by rules 106.9 to 106.18 of the Financial Rules of UNIDO (UNIDO/DG/B.74). In accordance with rule 106.11, "contributions to the Fund may be accepted by the Director-General in currencies chosen by the contributors, provided that such currencies are readily usable for the purpose of the contribution concerned."

3. In decision GC.4/Dec.21 the General Conference encouraged the Director-General to pursue the development of the programme approach described in document GC.4/28 in order to enhance the impact of UNIDO assistance and requested the Secretariat to promote selected programmes following the medium-term plan priority areas; it also urged Member States to provide adequate financial resources for the development and implementation of such programmes. In the same decision the Conference encouraged the Director-General to continue utilizing IDF resources as a means for the mobilization of larger financial flows, both for technical cooperation and investment, and recommended the improvement of investment-related activities.

I. ESTIMATED RESOURCE LEVEL

4. The pledges announced in 1991 amounted to \$28.9 million, a slight decrease as compared to the \$29.8 million pledged in 1990. The overall position of the Fund can be considered as stable since the Fund continued to enjoy support by all its major donors. There was a change in the pledging pattern of certain new and traditional donors, who responded positively to the repeated requests by the Secretariat for increased flexibility and programmability of their contributions. For the first time since the inception of the Fund, umbrella contributions were given in 1990 and 1991 under the special-purpose segment of the Fund, to be allocated to specific medium-term plan priorities, or to support preparatory assistance activities, thus enabling the Secretariat to increase and improve

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specific project and programme development activities leading to technical cooperation of enhanced quality.

5. The Secretariat will continue its efforts to reach the annual funding target of \$50 million for IDF, including \$10 million under the general-purpose segment of the Fund. This source of financing becomes particularly important as the highly competitive environment for development assistance funds of a multilateral nature and the unpredictable transitional situation of the specialized agencies within the United Nations system resulting from the United Nations Development Programme (UNDP) successor arrangements for agency support costs make it difficult at this stage to provide a realistic forecast of the resource level for the years 1993 and 1994.

II. PROGRAMMING THRUST, 1993-1994

6. In the current biennium (1992-1993) the Industrial Development Fund will continue to be one of the main financing mechanisms for UNIDO technical cooperation activities, one that is aimed at achieving a flexible and growing funding base that will enable the Secretariat to carry out the Organization's mandate and to provide sustained support to the developing countries. Considering the decrease in the UNDP indicative planning figure (IPF) resources for UNIDO implementation expected as a result of the UNDP successor arrangements and government execution, and the ad hoc nature of projects financed by trust funds, IDF will constitute the main programmable source of funds and will be instrumental in assisting the Secretariat to orient its technical cooperation activities (i.e. policy advice, direct support, institution-building, training, research and pilot projects) to priority programmes and projects in the medium-term plan.

7. During the period 1993-1994 the Secretariat will follow the programming thrust outlined in document IDB.8/11-PBC.7/14, chapter II, section A, and elaborated in greater detail in document GC.4/28. This programming thrust, which has the support of the Board (IDB.8/Dec.29) and of the General Conference (GC.4/Dec.21), focuses on:

(a) Transfer and appropriate application of new and advanced technologies in order to ensure better quality of products and environmental sustainability (IDB.8/11-PBC.7/14, chap. II, A, para. 9);

(b) Promotion of comprehensive programmes of technical cooperation that focus on countries or regions for the rehabilitation of specific subsectors of industry and/or on industrial areas (chap. II, A, para. 10);

(c) Promotion of "up-front" activities of technical cooperation such as policy advice, sectoral and subsectoral studies and surveys, integrated programme development and preparation of programme and project concepts on international priority themes that also feature as a priority in country development plans (chap. II, A, para. 11); and

(d) Promotion of activities to increase the flow of resources to productive investment projects (chap. II, A, para. 12).

8. A detailed description of the programme approach and its application is provided in chapter I of document GC.4/28. Integrated programmes aim at addressing a number of problems affecting an industrial system through projects that are interrelated and complementary and involve both technical cooperation and investment-related activities. The programme approach, by better identifying and analysing problems, facilitates the formulation of solutions with greater potential impact, thus improving quality. Furthermore it can be used in an optimal manner as a catalyst for the mobilization of further financial flows in the form of additional technical cooperation and investment resources.

9. The UNIDO approach to investment promotion and the many and varied promotional activities carried out under IDF aimed at mobilizing investment resources are explained in chapter II of GC.4/28.

10. In accordance with General Conference decision GC.4/Dec.11, paragraph (d), in the period 1993-1994 priority will be given to ensuring the quality of IDF-financed activities by giving greater consideration in future programming and appraisal activities to the quality of UNIDO programmes and projects, in terms of their relevance, cost effectiveness and sustainability, as defined in the annex to document GC.4/28. The "up-front" preparatory activities which are described in chapter IV, parts A and B, aim at enhancing the quality of IDF projects by enabling UNIDO to develop country strategies as a basis for programming and for project design and identification. Such activities at the global, regional, country and sectoral levels are also instrumental in ensuring the quality of projects and programmes in terms of their relevance to the industrial development objectives of recipient countries. The preparatory activities for large-scale projects will increasingly include, where appropriate, the organization by UNIDO of on-the-spot project formulation and appraisal meetings involving all relevant parties as described in document IDB.9/3, paragraph 21. This approach, which is aimed at ensuring the relevance of IDF projects and programmes, will provide: (a) a common understanding of the problems to be addressed by the project; (b) a realistic definition of the means to achieve the purpose agreed upon; and (c) a concrete basis for implementing, monitoring and evaluating project activities.

11. As pointed out in GC.4/28 (para. 41) and IDB.8/11-PBC.7/14 (para. 11), account should be taken of the close relationship between quality of projects and availability of freely programmable and flexible resources in the form of general pool and/or umbrella contributions.

12. As an overall objective in the use of IDF, the Secretariat will seek to optimize the impact of the very limited IDF resources (as compared to the requirements in the field of industrial development) by promoting programmes and projects that perform a catalytic and multiplier function. This will be achieved by mobilizing additional resources through IDF projects and programmes, grant aid and investments, as well as from

international organizations, development financing institutions, bilateral donors and the private sector.

13. In the period 1993-1994 the following programming and management modalities will be emphasized:

(a) Application of quality criteria and quality control measures, as outlined in paragraph 10 above;

(b) Ensuring the transparency of ongoing activities through monitoring and evaluation as well as reporting to donors and policy-making organs;

(c) Application of streamlined procedures for programme and project development and identification of sources of funds at the concept stage of the project or programme development process; and

(d) Ensuring optimum programming complementarity among IDF and other UNIDO-managed funds (Special Industrial Services programme, regular programme for technical cooperation and trust funds).

14. It is expected that Member States will fulfil the request of the governing bodies to ensure that the desirable annual IDF funding level of \$50 million be reached as soon as possible (decisions GC.4/Dec.21 and IDB.8/Dec.29), and that Member States' contributions to the general-purpose convertible segment of the Fund may reach the desirable minimum annual level of \$10 million (decision GC.4/Dec.21, para. (g)). The Secretariat believes that the most effective promotional tool in that respect will be the quality of programmes and projects while the expertise available within the Secretariat and the application of a multi-disciplinary approach in project and programme development and implementation will continue to be important assets of UNIDO. Donors may wish to channel funds through UNIDO particularly for the implementation of complex endeavours such as integrated programmes, technology programmes requiring highly technical backstopping capabilities and activities relating to policy advice of an impartial nature.

15. As in the past, in programming the use of IDF resources, sectoral and thematic emphasis will be given to the priority areas included in the medium-term plan, 1992-1997 (PBC.7/17). The main programming themes for the individual geographic regions will remain similar to those given in document IDB.8/11-PBC.7/14 and Corr.1, chapter II, paragraph 18.

16. In the case of the least developed countries (LDCs), the programme will highlight the priorities set out in the industrial action programme for the least developed countries adopted by the General Conference at its fourth session (GC.4/Res.10), in particular: human resource development, rural industrial development, strengthening of macroeconomic conditions and the mobilization of financial resources for industrial development, improvement of the scientific and technological base, and integration of women in industrial development.

III. ACTION REQUIRED OF THE COMMITTEE

17. The Committee may wish to consider recommending to the Industrial Development Board the adoption of the following draft decision:

"The Industrial Development Board:

"(a) Recalls General Conference decision GC.4/Dec.21 on the Industrial Development Fund;

"(b) Takes note of the report of the Director-General on the Industrial Development Fund (IDF) contained in document IDB.10/2-PBC.8/2 and the programming thrust for 1993 and 1994 proposed in chapter II of that document;

"(c) Decides to delegate authority to the Director-General to approve projects for financing under the Fund in 1993-1994 in accordance with the priority areas of the medium-term plan, 1992-1997 (PBC.7/17);

"(d) With reference to financial rule 106.11 and in light of the critical situation of the general-purpose convertible segment of the Fund as well as to allow for programming flexibility, urges all donor Governments to provide part of their contributions to the general-purpose convertible segment of the Fund so that a minimum annual level of \$10 million may be achieved as soon as possible;

"(e) Urges Member States to reconsider their IDF pledging policies to ensure that the desirable annual funding level of \$50 million be reached as soon as possible; and

"(f) Encourages Member States to consider providing umbrella contributions for financing preparatory assistance activities of large-scale projects and programmes (IDB.10/2-PBC.8/2, para. 10)."